

AUDIT COMMITTEE – 16th NOVEMBER 2021

Report of the Head of Strategic Support

Part A

ITEM 11 ENGAGEMENT OF AUDITORS FOR NON-AUDIT WORK

Purpose of Report

To provide the Committee with an opportunity to review the policy for Charnwood Borough Council in respect of the Engagement of Auditors for Non-Audit Work.

Recommendation

The Committee approve the updated policy (as annexed) with an agreed financial limit of £30,000.

Reason

To ensure the Council has appropriate policies in place to cover the engagement of auditors for non audit work.

Policy Justification and Previous Decisions

The Committee originally approved a policy at its meeting on 5th March 2013, following a recommendation from the then external auditors (KPMG).

Report Implications

The following implications have been identified for this report.

Financial Implications

There are no direct financial implications.

Risk Management

There are no risks associated with this decision.

Background Papers: None

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Part B

Background

1. It is important that the independence of external auditors in reporting to those charged with governance and to management of Charnwood Borough Council (the Council), does not appear to be compromised, but equally the Council should not be deprived of expertise where it is needed and can be obtained from the external auditors.
2. The proposed revised policy therefore seeks to set out what threats to audit independence theoretically exist and thus provides a definition of non-audit work which can be shared by the Council and the external auditors. It then seeks to establish the approval processes and corporate reporting mechanisms that will be put in place for any non-audit work that the external auditors are asked to perform.
3. Annexed to this report is the updated policy, which has been reviewed and updated to refer to external auditors in general, rather than to a specific firm. No other changes are proposed.

POLICY FOR THE ENGAGEMENT OF EXTERNAL AUDITORS FOR NON-AUDIT WORK

Introduction and purpose of this policy

It is important that the independence of our external auditors in reporting to those charged with governance and to management of Charnwood Borough Council (the Council), does not appear to be compromised but equally the Council should not be deprived of expertise where it is needed and can be leveraged from the external auditors firm as a whole.

This policy therefore seeks to set out what threats to audit independence theoretically exist and thus provides a definition of non-audit work which can be shared by the Council and its external audit firm. It then seeks to establish the approval processes and corporate reporting mechanisms that will be put in place for any non-audit work that the external audit firm is asked to perform.

Threats to independence

The Institute of Chartered Accountants in England and Wales sets out threats to independence as:

self interest	where an interest in the outcome of their work or in a depth of relationship with the Council may conflict with the auditors' objectivity
self audit	where the auditors may be checking their own colleagues work and might feel constrained from identifying risks and shortcomings
advocacy	may be present in an engagement but could become a threat if an auditor becomes an advocate for an extreme position in an adversarial matter
familiarity	where the level of constructive challenge provided by the auditor is diminished as a result of assumed knowledge or relationships that exist

Defining types of non-audit work and the associated approval process

In order to provide the Council with a transparent mechanism by which non-audit work can be reviewed and progressed without too great an administrative burden falling on the Council, the following three categories of work have been agreed as applying to the professional services available from the external audit firm:

1. Statutory and audit related work not requiring Audit Committee approval

There are certain projects where the work is clearly audit related and the external auditors are best placed to do the work e.g. acting as agents for grants certification work.

It is proposed that such assignments do not require Audit Committee approval. However, recognising that the level of non audit fees may also be a threat to independence, a limit of £30,000 is set, above which prior Audit Committee approval should be sought for such work.

2. Audit related and advisory services requiring prior Audit Committee approval

There are projects and engagements where the auditors are best placed to perform the work:

- due to their network within and knowledge of the business (e.g. taxation advice, due diligence and accounting advice);
- due to their previous experience or market leadership.

It is proposed that prior Audit Committee approval is sought for projects of this nature.

3. Projects that are not permitted

There are some projects that are not to be performed by the external auditors. These projects represent a real threat to the independence of the audit team such as where the external auditors would be in a position where they are auditing their own work (for example, systems implementation).

The Audit Committee is responsible for approving all non-audit work undertaken by the external auditors and reporting any instances to the Council. These proposed categories of non audit work along with the related approval levels are set out below. More detail on each type of work is set out in Appendix A.

For the avoidance of doubt, seeking approval from the Audit Committee involves the business sponsor of the proposed work obtaining a proposed scope and fee estimate from the external audit firm before the work commences. If the fee exceeds the proposed limits or falls into a category of work that requires approval, details of the scope and fee proposal should be submitted to the Audit Committee Chairman and Strategic Director, Environmental & Corporate Services. If approved, the project should be logged by the Audit Committee secretary to be raised at the next Audit Committee meeting in order that a schedule of non audit fees can be maintained and Council updated.

In cases where it is undecided which category services fall into they will default to the category that requires Audit Committee approval and be expected to take that route until such as time as this policy is reviewed and updated by the Audit Committee.

Reviewing and updating this policy

The Audit Committee will agree on a periodic basis that it is content with the structure, content and operation of this policy.

Appendix A: Examples of work types

The table below sets out examples of the different work types that could be requested from the external audit firm. As it would not be practical to consider all the services provided by an external audit firm, it documents the characteristics that drive the classification of services into the different work streams. This table is intended to provide illustrative examples of how the implementation of this policy would be approached should the Council request assistance from the external audit firm.

	Statutory and audit related (Not requiring Audit Committee approval, unless in excess of £30k)	Audit and assurance related and non audit advisory services (Sensitive projects requiring referral without de minimis)	Projects that are not permitted
Characteristics	<ul style="list-style-type: none"> • Advice on areas core to the financial statements audit 	<ul style="list-style-type: none"> • Requiring independent objective assessment of information or procedures • Staff secondments • Other advisory services 	<ul style="list-style-type: none"> • Participation in management
Acquisitions / Disposals	<ul style="list-style-type: none"> • Accountants reports • Reporting on financial assistance • Audit of carve out financial statements 	<ul style="list-style-type: none"> • Due diligence and related advice • Completion accounts audit • Agreement of price adjustment as a result of completion accounts • Advice on integration activities • Preparation of forecast of investment proposals 	
Internal Audit and Risk Management Services	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Provision of specialist skills / training • Advice on methodology and systems • Co-sourcing • Advice and design of policies, systems or procedures. 	<ul style="list-style-type: none"> • Full outsourcing • Systems implementation
Taxation	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Preparation of draft returns • Submission of returns and correspondence with tax authorities • Advice on tax matters • Transfer pricing • Valuation for the purposes of taxation 	<ul style="list-style-type: none"> • Preparation of accounting entries for tax • Handling taxation payments
General Accounting	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Advice on accounts preparation and application of accounting standards • Training for accounting and risk management projects • Booking keeping services 	<ul style="list-style-type: none"> • Preparation of accounting entries • Preparation of financial information